

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sault Ste. Marie Area Public Schools	County Chippewa
Fiscal Year End June 30, 2006	Opinion Date August 21, 2006	Date Audit Report Submitted to State November 16, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

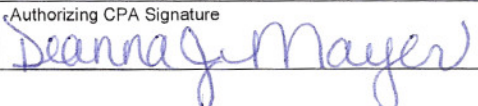
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature 	Printed Name Deanna J. Mayer		License Number 1101028546

Sault Ste. Marie Area Public Schools

**Financial Report
with Supplemental Information**

June 30, 2006

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Members of the
Board of Education
Sault Ste. Marie Area Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Sault Ste. Marie Area Public Schools as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sault Ste. Marie Area Public Schools' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Sault Ste. Marie Area Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Sault Ste. Marie Area Public Schools

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006 on our consideration of Sault Ste. Marie Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sault Ste. Marie Area Public Schools basic financial statements. The accompanying information identified in the Table of Contents, and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2006

Administration's Discussion and Analysis

Sault Ste. Marie Area Public Schools is a pre-K-12 School District located in Chippewa County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Sault Ste. Marie Area Public Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

U.S. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to pre GASB 34 financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Projects, and the Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-wide Financial Statements:

The District-wide financial statements are additional reporting formats. These statements are maintained using the "full accrual" basis. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Summary of Net Assets:

The following summarizes the net assets at fiscal years ended June 30, 2006, 2005, and 2004:

Net Assets Summary

Assets	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	<u>\$ 6,360,429</u>	<u>\$ 7,105,567</u>	<u>\$ 7,115,504</u>
Capital assets not depreciated	1,322,918	1,365,499	1,318,543
Capital assets depreciated	<u>14,236,217</u>	<u>14,597,969</u>	<u>15,163,012</u>
Total capital assets	<u>15,559,135</u>	<u>15,963,468</u>	<u>16,481,555</u>
Total assets	<u>\$ 21,919,564</u>	<u>\$ 23,069,035</u>	<u>\$ 23,597,059</u>
Liabilities			
Current liabilities	\$ 4,093,635	\$ 4,082,156	\$ 3,643,118
Long-term liabilities	<u>10,988,105</u>	<u>11,153,217</u>	<u>11,929,281</u>
Total liabilities	<u>\$ 15,081,740</u>	<u>\$ 15,235,373</u>	<u>\$ 15,572,399</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 3,947,195	\$ 4,245,543	\$ 3,995,869
Restricted for debt service	853,156	796,387	390,577
Unrestricted	<u>2,037,473</u>	<u>2,791,732</u>	<u>3,638,214</u>
Total net assets	<u>\$ 6,837,824</u>	<u>\$ 7,833,662</u>	<u>\$ 8,024,660</u>

1. Analysis of Financial Position:

During fiscal year ended June 30, 2006, the District's net assets decreased by \$1,038,096. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The district's expenditures from General Fund operations exceeded revenues by \$764,497 for the fiscal year ended June 30, 2006. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt, Principal Payments

The District made principal payments on bonded, lease and assessment debt obligations that reduced the amount of the district's long-term liabilities as follows.

	<u>Balance</u> <u>06/30/05</u>	<u>Adjustments</u>	<u>New</u> <u>Borrowings</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>06/30/06</u>
Lease Payable (Copier Lease)	\$ 121,940	\$ -	\$ -	\$ 57,241	\$ 64,699
Assessments & Bonds Payable	<u>11,481,595</u>	<u>499,135</u>	<u>-</u>	<u>534,157</u>	<u>11,446,573</u>
Total long-term obligations	<u>\$ 11,603,535</u>	<u>\$ 499,135</u>	<u>\$ -</u>	<u>\$ 591,398</u>	<u>\$ 11,511,272</u>

The bonds payable represent the current debt on the 1999 Middle School Addition. For 2005-06 2.46 mills were levied on local taxpayers to pay the current principal and interest of \$1,016,927. The millage rate for 2006-07 will be 2.11 mills to pay principal and interest of \$963,269.

2. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets.

For fiscal year ended June 30, 2006, the net increase in accumulated depreciation was \$575,857.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

3. Capital Assets

The District's investment in capital assets decreased by \$404,333 during the fiscal year. This is summarized as follows:

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance 06/30/06</u>
Capital assets	\$ 25,140,251	\$ 218,480	\$ (46,956)	\$ 25,311,775
Less: accumulated depreciation	<u>(9,176,783)</u>	<u>(703,374)</u>	<u>127,517</u>	<u>(9,752,640)</u>
Net investment capital outlay	<u>\$ 15,963,468</u>	<u>\$ (484,894)</u>	<u>\$ 80,561</u>	<u>\$ 15,559,135</u>

See Note 4 – Capital Assets later in the audit report for more detail.

4. Results of Operations:

For the fiscal year ended June 30, 2006, 2005, and 2004 the District wide results of operations were:

(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Revenue:			
Property Taxes collected for General Operations	\$ 3,443	\$ 3,234	\$ 3,226
State of Michigan Aid – All Sources	16,302	15,466	16,740
Property taxes levied for Debt Service	1,046	1,007	1,004
Federal Impact Aid	430	674	650
Other – Investment Earnings, Fees	<u>257</u>	<u>767</u>	<u>29</u>
Total General Revenue	<u>21,478</u>	<u>21,148</u>	<u>21,649</u>
Program Revenue:			
Charges for Services – Local	1,020	1,017	981
Operating Grants – Federal and State	<u>2,659</u>	<u>4,210</u>	<u>3,700</u>
Total Program Revenue	<u>3,679</u>	<u>5,227</u>	<u>4,681</u>
Total Revenues	<u>25,157</u>	<u>26,375</u>	<u>26,330</u>
Expenses:			
Instruction and Instructional Services	16,931	17,729	18,381
Support Services	7,473	7,247	7,643
Community Services	31	118	101
Interest on Long-Term Debt	524	559	601
Depreciation (Unallocated)	703	737	763
Other	<u>533</u>	<u>176</u>	<u>106</u>
Total Expenses	<u>26,195</u>	<u>26,566</u>	<u>27,595</u>
Changes in Net Assets	(1,038)	(191)	(1,265)
Beginning Net Assets	7,834	8,025	9,290
Prior Period Adjustment	<u>42</u>	<u>-</u>	<u>-</u>
Ending Net Assets	<u>\$ 6,838</u>	<u>\$ 7,834</u>	<u>\$ 8,025</u>

1. Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 17.9604 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the 2005–2006 fiscal year was \$3,604,888; the non-homestead tax levy increased by 5.18% over the prior year.

The following summarizes the District's non-homestead levy the past five years:

<u>Fiscal Year</u>	<u>Non- Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2005 – 2006	\$ 3,604,888	5.18%
2004 – 2005	3,475,286	10.5
2003 – 2004	3,144,000	1.7
2002 – 2003	3,091,369	2.0
2001 – 2002	3,030,181	2.8

Average Increase Last 3 Years 4.16%

Source: L-4029 Tax Rate Request filed with Chippewa County.

2. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75% of current year fall count and 25% of prior year winter count
- c. The District's non-homestead levy

To calculate the amount of total State of Michigan Aid received, multiply the per student foundation allowance by the blended student count; subtract the total amount of non-homestead tax collected. The result is the amount of state aid paid to the district. The more local non-homestead property taxes collected, the less state aid received.

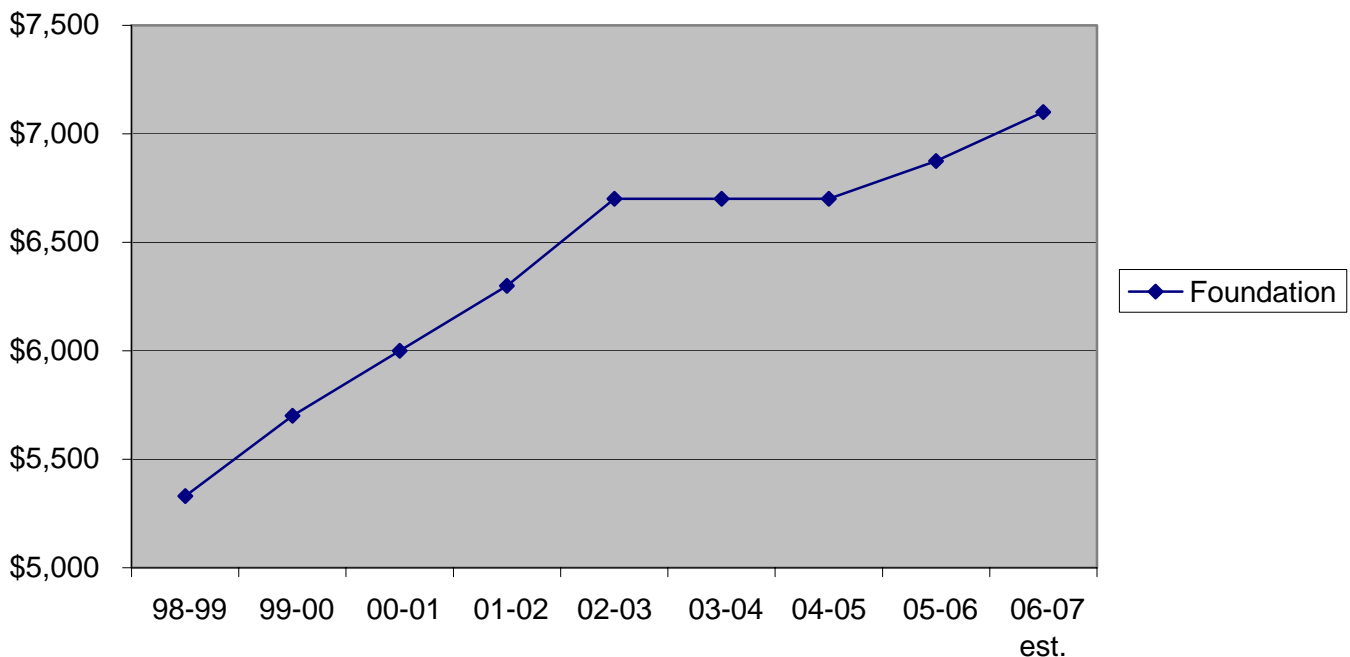
It should also be noted that the State of Michigan often makes adjustments to prior years' payments resulting in changes to final totals.

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Sault Ste. Marie Area Public Schools foundation allowance was \$6,875 per student for the 2005–2006 school year. This is an increase of \$175 or 2.6% over District's 2004–2005 foundation allowance per student of \$6,700.

The projected foundation allowance for 2006-2007 is \$ 7,100.

**Per Student Foundation Allowance
Before Proration Cuts**

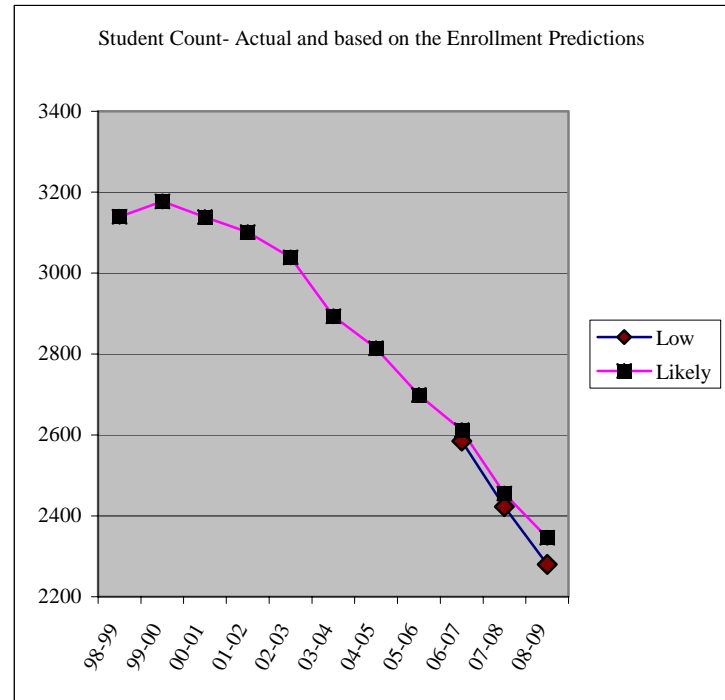
**Student Enrollment:**

The District's student enrollment for the fall count of 2005-2006 was 2,699 students. The District's enrollments have gradually declined in the past five years. The following summarizes fall student enrollments and the actual foundation allowance for the past five years:

	<u>Enrollment</u>	<u>Change from Prior Year</u>	<u>Actual Foundation</u>	<u>Change from Prior Year</u>
2005 – 2006	2,699	(4.1%)	6,875	2.6%
2004 – 2005	2,814	(2.7%)	6,700	1.1%
2003 – 2004	2,893	(4.8%)	6,626	(0.4%)
2002 – 2003	3,039	(2.0%)	6,655	2.4%
2001 – 2002	3,101	(1.2%)	6,500	8.3%

Subsequent to year end June 30, 2006 preliminary student enrollments for 2006-2007 indicate that enrollments will decrease 87 students from 2005-2006. In 2003-2004 and 2004-2005, the foundation allowance was \$6,700; however, there was a midyear reduction per student of \$45 in 2002-2003 and \$74 per student in 2003-2004.

Sault Schools Fall Enrolment Predictions					
				Fall	Fall
	Most	Low		Count	Count
Year	Likely	Prediction	Actual	Likely	Low
98-99	-33	-92	-14	3,139	
99-00	7	-74	38	3,177	
00-01	-50	-120	-39	3,138	
01-02	-19	-85	-37	3,101	
02-03	-58	-112	-62	3,039	
03-04	-108	-167	-146	2,893	
04-05	-58	-114	-79	2,814	
05-06	-55	-123	-116	2,699	
06-07	-87	-114		2,612	2,585
07-08	-157	-162		2,455	2,423
08-09	-109	-143		2,346	2,280
3 yr Total	-353	-419			



3. Property Taxes levied for Debt Service:

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) in lieu of taxes that are essentially taxed at 50% of the regular tax rate.

For 2005-2006, the District's debt millage levy was 2.4600 mills and generated a levy of \$1,060,154. As of June 30, 2006, \$24,479 of personal debt taxes was not paid to the District. The unpaid taxes represent 2.3% of the total levy.

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sault Ste. Marie Area Public Schools amends its budget periodically during the school year. For the fiscal year 2005-2006, the budget was amended in November 2005, March and June 2006. The June 2006 budget amendment was the final budget for the fiscal year. The Sault Ste. Marie Area Public Schools Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The budgets shown below exclude indirect costs.

General Fund Revenues - Original vs. Final Budget:

(in thousands)

Total Revenues Original Budget	\$ 23,059
Total Revenues Final Budget	<u>22,766</u>
Increase in Budgeted Revenues	<u>\$ (293)</u>

Some of the significant budget adjustments for the year include:

(in thousands)

REVENUES:

Increase Interest on Investments	52
Increase Title I Carryover	96
Decrease Current Title I Grant	(66)
Increase Prior Year Adjustments	81
Decrease Special Ed. Flowthrough Grant	(57)
State Aid: Adjusted for actual fall count	(236)
Increase Indirect Costs	58
Decrease Federal Impact Aid allocation	(195)
Increase ISD Special Education Funding (Medicaid)	52
Increase FTL Grant	70
Increase Title I Professional Development Grant	60

General Fund Expenditures - Original vs. Final Budget:

The District's budget for expenditures changed as follows during the year:

(in thousands)

Total Expenditures Original Budget	\$ 23,896
Total Expenditures Final Budget	<u>24,027</u>
Increase in Budgeted Expenditures	<u>\$ 131</u>

Some significant budget adjustments for the year include:

(in thousands)

EXPENDITURES:**INSTRUCTION**

Increase instructional salaries	\$	111
Decrease employee benefits		(29)
Increase support salaries and benefits		122
Increase building admin. salaries and wages		51
Decrease contracted services		(34)

ADMINISTRATION

Increase salaries		3
Increase benefits		9
Decrease legal services		(30)
Decrease Printing & Publishing		(7)

TRANSPORTATION

Increase salaries		81
Decrease benefits		(37)
Increase capital outlay (bus)		16

TECHNOLOGY

Decrease salaries and benefits		6
Increase contracted repair		12
Decrease computer repair parts		(6)
Increase software licenses and capital outlay		23

PRIOR YEAR ADJ. – decrease (40)

FEDERAL AND STATE GRANTS – increase 81

LOCAL PROGRAMS – decrease (42)

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget vs. Actual 5-Year History**

<u>Fiscal Year</u>	Revenues Final <u>Budget</u>	Revenues Final <u>Actual</u>	<u>Difference</u>	<u>Variance</u>
2001 – 2002	24,696,372	24,661,922	(34,450)	(0.1%)
2002 – 2003	24,765,343	24,625,328	(140,015)	(0.6%)
2003 – 2004	24,331,230	24,234,263	(96,967)	(0.4%)
2004 – 2005	23,859,813	23,581,804	(278,009)	(1.17%)
2005 – 2006	22,765,978	22,892,670	126,692	0.56%

Some of the significant budget variances for the year include:

Current Tax Collections	3,463,574	3,401,061	(62,513)	(1.8%)
State Aid – Unrestricted	14,474,247	14,579,881	105,634	.73%
Medicaid Outreach	100,000	158,613	58,613	58.61%
At Risk	509,838	465,616	(44,222)	(8.67%)
Title I	573,545	551,439	(22,106)	(3.85%)

General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	Expenditures Final <u>Budget</u>	Expenditures Final <u>Actual</u>	<u>Difference</u>	<u>Variance</u>
2001 – 2002	24,520,102	23,842,225	677,877	2.8%
2002 – 2003	25,513,345	24,853,857	659,488	2.6%
2003 – 2004	24,978,894	24,459,195	519,699	2.1%
2004 - 2005	24,598,267	24,464,249	134,018	.54%
2005 – 2006	24,026,875	23,657,167	369,708	1.5%

Some of the significant budget variances for the year include:

Teaching Salaries	8,599,338	8,510,507	88,830	1.03%
Custodial Salaries	591,750	561,330	30,420	5.14%
Maintenance Salaries	113,200	83,188	30,012	26.51%
Contracted Health Services	199,354	167,459	31,895	16.00%
Contracted Computer Repair	57,000	39,720	17,280	30.32%
Clerical Substitutes	77,314	66,982	10,332	13.36%
Paraprofessional Salaries	732,341	722,572	9,769	1.33%

2006 – 2007 Budget,

The Preliminary Budget for the 2006-07 Fiscal Year was adopted by the Board of Education on June 12, 2006. Several important factors were known as the budget was being drafted, others were projected with best estimates.

Impact on Revenues:

- Use of \$894,057 of Fund Equity to compensate for lost State Aid Revenue.
- State Aid foundation increase to \$7,100 per pupil.
- Decrease in enrollment projected at 87 students.
- Decrease in Federal and State grant revenues.
- Decrease contributions and insurance refunds.
- Decrease of Federal Impact Aid.

Impact on Expenditures:

- Increase in health care costs: 6.61% for MESSA and 0% for USWA Blue Cross.
- Increase retirement rate from 16.34% to 17.74%.
- Reduce staffing due to declining enrollment: 1 Elementary Teacher, 4 Middle School Teachers, 5 High School Teachers
- Purchase of used buses rather than new.
- Reduced Federal and State grant expenditures.

Estimated 2006-2007 Budget:

2006/07 Revenues	\$ 22,698,092
2006/07 Expenditures	<u>23,592,149</u>
Excess Expenses Over Revenues	\$ (894,057)
July 1, 2006 Fund Balance	<u>2,048,972</u>
Estimated June 30, 2007 Fund Balance	<u>\$ 1,154,915</u>

Contacting the District's Financial Management:

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office of the Sault Ste. Marie Area Public Schools at (906)635-6609.

Basic Financial Statements

**Statement of Net Assets
June 30, 2006**

	Governmental Activities
<hr/>	
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 2,864,646
Due from other governmental units	3,439,271
Accounts receivable	19,673
Inventories	22,839
Prepaid expenses	14,000
	<hr/>
Total current assets	6,360,429
	<hr/>
Capital Assets:	
Capital Assets Not Depreciated	1,322,918
Capital Assets Depreciated	14,236,217
	<hr/>
Total noncurrent assets	15,559,135
	<hr/>
Total assets	\$ 21,919,564
	<hr/> <hr/>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 64,785
Accrued salaries and withholding	2,995,190
Accrued interest	100,668
Deferred revenue	58,423
Due to other governmental units	120,245
Lease payable - due within one year	64,699
Assessment and Bonds payable - due within one year	689,625
	<hr/>
Total current liabilities	4,093,635
	<hr/>
Noncurrent Liabilities:	
Assessments and Bonds payable	10,756,948
Compensated absences payable	231,157
	<hr/>
Total noncurrent liabilities	10,988,105
	<hr/>
Total liabilities	15,081,740
	<hr/>
Net Assets:	
Invested in capital assets, net of related debt	3,947,195
Restricted for debt service	853,156
Unrestricted	2,037,473
	<hr/>
Total net assets	\$ 6,837,824
	<hr/> <hr/>

Sault Ste. Marie Area Public Schools

Statement of Activities Year Ended June 30, 2006

		Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
	Expenses			
Functions/Programs:				
Governmental Activities:				
Instruction and Instructional Services	\$ 16,930,605	\$ 385,885	\$ 2,098,781	\$ (14,445,939)
Support services	7,472,894	634,232	560,456	(6,278,206)
Community services	31,037	-	-	(31,037)
Interest on long-term debt	524,014	-	-	(524,014)
Other	533,210	-	-	(533,210)
Depreciation (Unallocated)	703,374	-	-	(703,374)
Total Governmental Activities	<u>\$ 26,195,134</u>	<u>\$ 1,020,117</u>	<u>\$ 2,659,237</u>	(22,515,780)
General Revenues:				
Taxes				
Property taxes, levied for general operations				3,443,090
Property taxes, levied for debt service				1,045,599
State of Michigan aid, unrestricted				16,301,566
Federal impact aid				429,887
Miscellaneous				154,731
Interest and investment earnings				102,811
Total general revenues				<u>21,477,684</u>
Changes in Net Assets				(1,038,096)
Net assets:				
Beginning of year				7,833,662
Prior Period Adjustment				42,258
End of year				<u>\$ 6,837,824</u>

Sault Ste. Marie Area Public Schools

Balance Sheet Governmental Funds June 30, 2006

	General	QZAB Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,790,001	\$ 535,839	\$ 538,806	\$ 2,864,646
Due from other governmental units	3,439,271	-	-	3,439,271
Due from other funds	43,643	-	40,077	83,720
Inventories	22,839	-	-	22,839
Accounts receivable	3,260	-	16,413	19,673
Prepaid expenses	14,000	-	-	14,000
Total Assets	<u>\$ 5,313,014</u>	<u>\$ 535,839</u>	<u>\$ 595,296</u>	<u>\$ 6,444,149</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Due to other funds	\$ 40,077	\$ -	\$ 43,643	\$ 83,720
Accounts payable	64,526	-	259	64,785
Accrued salaries and withholdings	2,995,190	-	-	2,995,190
Deferred revenue	44,004	-	14,419	58,423
Due to other governmental units	120,245	-	-	120,245
Total liabilities	<u>3,264,042</u>	<u>-</u>	<u>58,321</u>	<u>3,322,363</u>
Fund Balances:				
Reserved for debt service	-	535,839	317,317	853,156
Unreserved and undesignated	2,016,493	-	-	2,016,493
Designated, athletics	-	-	31,295	31,295
Designated, food services	-	-	188,363	188,363
Designated, store	32,479	-	-	32,479
Total fund balances	<u>2,048,972</u>	<u>535,839</u>	<u>536,975</u>	<u>3,121,786</u>
Total liabilities and fund balances	<u>\$ 5,313,014</u>	<u>\$ 535,839</u>	<u>\$ 595,296</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.				
The cost of the capital assets is			\$ 25,311,775	
Accumulated depreciation is			<u>(9,752,640)</u>	
				15,559,135
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Leases, assessments and bonds payable				(11,511,272)
Compensated absences				(231,157)
Accrued interest is not included as a liability in governmental funds				<u>(100,668)</u>
Net assets of governmental activities				<u>\$ 6,837,824</u>

Sault Ste. Marie Area Public Schools

Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2006

	General	QZAB Debt Service	Other Nonmajor Governmental Funds	Totals
REVENUES:				
Local sources	\$ 4,154,825	\$ -	\$ 1,679,831	\$ 5,834,656
State sources	16,186,372	-	114,258	16,300,630
Federal sources	1,643,907	-	446,198	2,090,105
Interdistrict sources	828,836	-	-	828,836
Interest on deposits	78,730	-	24,081	102,811
Total Revenues	22,892,670	-	2,264,368	25,157,038
EXPENDITURES:				
Current:				
Instruction	14,683,310	-	-	14,683,310
Instructional services	2,361,990	-	-	2,361,990
Supporting services	6,163,685	-	1,446,297	7,609,982
Community services	31,037	-	-	31,037
Debt service	524	-	1,065,832	1,066,356
Capital outlay	-	-	293	293
Total expenditures	23,240,546	-	2,512,422	25,752,968
Excess of Revenues (Expenditures)	(347,876)	-	(248,054)	(595,930)
OTHER FINANCING SOURCES (USES):				
Other transactions	(9,158)	-	(522,621)	(531,779)
Operating transfers in	-	121,963	310,440	432,403
Operating transfers out	(407,463)	-	(24,940)	(432,403)
Total other financing sources (uses)	(416,621)	121,963	(237,121)	(531,779)
Net Changes in Fund Balances	(764,497)	121,963	(485,175)	(1,127,709)
Fund Balances - Beginning of year	2,813,469	-	1,022,150	3,835,619
Prior Period Adjustment	-	413,876	-	413,876
Fund Balances - End of year	\$ 2,048,972	\$ 535,839	\$ 536,975	\$ 3,121,786

Sault Ste. Marie Area Public Schools

Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund Balances of Governmental Funds To the Statement of Activities Year Ended June 30, 2006

Net Changes in fund balances - total governmental funds \$ (1,127,709)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	171,524	
Current Depreciation Expense	<u>(703,374)</u>	(531,850)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:

Bond principal	528,287
Lease principal	57,241
Special Assessment	5,870

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	16,343	
Accrued interest on bonds	<u>13,722</u>	<u>30,065</u>

Changes in net assets of governmental activities	<u><u>\$ (1,038,096)</u></u>
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Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency</u>	<u>Private Purpose Trusts</u>
ASSETS:		
Cash and Cash Equivalents	<u>\$ 300,953</u>	<u>\$ 21,422</u>
LIABILITIES:		
Due to Clubs and Organizations	<u>\$ 300,953</u>	<u>-</u>
FUND EQUITY:		
Net Assets held in Trust for Other Purposes		<u>\$ 21,422</u>

Sault Ste. Marie Area Public Schools

Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2006

ADDITIONS:

Contributions	\$ 3,650
Interest on deposits	<u>721</u>
Total Additions	<u>4,371</u>

DEDUCTIONS:

Scholarship Payments	1,800
Miscellaneous Payments	<u>8,055</u>
Total Deductions	<u>9,855</u>

Net Increase (Decrease)	<u>(5,484)</u>
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Held in Trust for Other Purposes:

NET ASSETS - Beginning of year	<u>26,906</u>
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NET ASSETS - End of year	<u><u>\$ 21,422</u></u>
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Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Sault Ste. Marie Area Public Schools conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School District also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

Basic Financial Statements – Government-wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.)

Note 1 - Summary of Significant Accounting Policies (Continued)

The District does not allocate indirect costs. In creating the government-wide financial statements, the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Funds – Governmental Funds are those funds through which most School District functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

QZAB Debt Service Fund – This fund accounts for the bond principle and interest payments to the escrow agents for the 2001 and 2002 QZAB Bonds.

Additionally, the School reports the following funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Debt Service Funds – The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Funds – The Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Capital Project Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Activities (Agency) Fund – The School District presently maintains a Student Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Scholarship Funds – The District maintains scholarship funds for future beneficiaries.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental wide statement uses the economic resources measurement focus.

Accrual

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants, and charges for services. Other revenue is recorded when received.

Note 1 - Summary of Significant Accounting Policies (Continued)

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

For Sault Ste. Marie Area Public Schools taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes. Interest accrues effective August 1st and becomes delinquent the following March 1st.

The tax rates for the year ended June 30, 2006, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	17.9604 per \$1,000 taxable value (Non-Homestead Property Only)
Debt – 1999 Bond Issue	2.4600 per \$1,000 taxable value (Homestead and Non-Homestead Property)

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

Receivable and Payables – Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets, which include land, buildings, furniture, and equipment are reported in the governmental activities column in the school-wide financial statements. Capital assets are defined by the school as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	20-50 years
Buildings	30-50 years
Building Improvements	5-20 years
Equipment	5-20 years
Buses	5-10 years
Vehicles	5-10 years
Furniture	5-20 years
Software	2-5 years

Other accounting policies are disclosed as appropriate in other notes to the financial statements.

Compensated Absences – The liability for compensated absences reported in the government-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Note 1 - Summary of Significant Accounting Policies (Continued)

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Budgets

The School District formally adopted General Fund and Special Revenue Funds budgets by function for the fiscal year ended June 30, 2006. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Budget Violations – Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Food Service Fund:			
Food Service	\$ 990,227	\$ 1,021,747	\$ (31,520)

Note 3 - Deposits and Investments
Deposits

At year end, the School's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 711,422	\$ 322,375	\$ 1,033,797
Investments-Unrestricted	1,617,385	-	1,617,385
Investments-Restricted	<u>535,839</u>	<u>-</u>	<u>535,839</u>
Total	<u>\$ 2,864,646</u>	<u>\$ 322,375</u>	<u>\$ 3,187,021</u>

The School's deposits are deposited in three local financial institutions. Deposits are carried at cost.

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 1,033,797
Investments in Mutual Funds	1,617,385
Investments in Federal Backed Securities	<u>535,839</u>
	<u>\$ 3,187,027</u>

The bank balance of the primary government's deposits is \$1,300,214, of which \$263,362, 20.26%, is covered by federal depository insurance.

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The School's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The School's policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

Custodial investment credit risk. Investment custodial credit risk, is the risk that in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the School's \$2,153,224 investments, \$535,839 are not in the name of the School, but in the name of the agent.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$1,036,852 of the School's bank balance of \$1,300,214 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

Note 3 - Deposits and Investments (Continued)

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Districts deposits are in accordance with state statutes.

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Investments:					
Mutual Funds	\$ 1,617,385	\$ 1,617,385	\$ -	\$ -	\$ -
Federal Backed Securities	<u>488,430</u>	<u>182,972</u>	<u>38,614</u>	<u>314,253</u>	<u>-</u>
Total Investments:	<u>\$ 2,105,815</u>	<u>\$ 1,800,357</u>	<u>\$ 38,614</u>	<u>\$ 314,253</u>	<u>\$ -</u>

The School District has a restricted cash balance of \$535,839 invested in U.S. Treasury Bills for payment of 2001 and 2002 Qualified Zone Academy Bonds. (See Note 5)

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	Balance July 1, 2005	Additions	Adjustments/ Deductions	Balance June 30, 2006
Capital Assets Not Depreciated:				
Land	\$ 70,722	\$ -	\$ -	\$ 70,722
Land Improvements	1,247,821	-	-	1,247,821
Construction in Progress	<u>46,956</u>	<u>4,375</u>	<u>(46,956)</u>	<u>4,375</u>
Total Assets Not Depreciated	<u>1,365,499</u>	<u>4,375</u>	<u>(46,956)</u>	<u>1,322,918</u>
Capital Assets Depreciated:				
Land Improvements	831,880	10,745	-	842,625
Buildings	19,814,295	-	-	19,814,295
Building Improvements	362,058	111,794	-	473,852
Equipment	754,714	18,394	-	773,108
Buses	1,288,217	73,172	-	1,361,389
Vehicles	116,889	-	-	116,889
Furniture	395,292	-	-	395,292
Software	<u>211,407</u>	<u>-</u>	<u>-</u>	<u>211,407</u>
Total Assets Depreciated	<u>23,774,752</u>	<u>214,105</u>	<u>-</u>	<u>23,988,857</u>
Less Accumulated Depreciation for:				
Land Improvements	(413,581)	(104,880)	-	(518,461)
Buildings	(6,856,005)	(363,734)	105,697	(7,114,042)
Building Improvements	(147,803)	(30,448)	1,576	(176,675)
Equipment	(391,793)	(52,892)	4,619	(440,066)
Buses	(1,007,412)	(110,339)	12,199	(1,105,552)
Vehicles	(87,499)	(10,439)	755	(97,183)
Furniture	(74,003)	(19,765)	1,243	(92,525)
Software	<u>(198,687)</u>	<u>(10,877)</u>	<u>1,428</u>	<u>(208,136)</u>
Subtotal	<u>(9,176,783)</u>	<u>(703,374)</u>	<u>127,517</u>	<u>(9,752,640)</u>
Net Capital Assets Depreciated	<u>14,597,969</u>	<u>(489,269)</u>	<u>127,517</u>	<u>14,236,217</u>
Total Net Capital Assets	<u>\$ 15,963,468</u>	<u>\$ (484,894)</u>	<u>\$ 80,561</u>	<u>\$ 15,559,135</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$703,374. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

Bond obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities								
General Obligation Bonds								
1998 Durant Bonds	4.76%	2013	\$ 439,352	\$ -	\$ -	\$ 33,287	\$ 406,065	\$ 159,067
1999 School Building and Site Bonds	4.50 to 5.375%	2009	2,150,000	-	-	495,000	1,655,000	525,000
2001 QZAB	0.00%	2013	582,635	417,315	-	-	999,950	-
2002 QZAB	0.00%	2017	518,180	81,820	-	-	600,000	-
2005 Advance Refunding Bonds	4% to 5%	2019	7,780,000	-	-	-	7,780,000	-
Special Assessment Debt								
City of Sault Ste. Marie Special Assessments	6.25%	2007	<u>11,428</u>	<u>-</u>	<u>-</u>	<u>5,870</u>	<u>5,558</u>	<u>5,558</u>
Total Governmental Activities			<u>\$11,481,595</u>	<u>\$ 499,135</u>	<u>\$ -</u>	<u>\$ 534,157</u>	<u>\$11,446,573</u>	<u>\$ 689,625</u>

Note 5 - Long-Term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 689,625	\$ 467,651
2008	586,533	436,611
2009	618,273	404,600
2010	660,093	370,905
2011	692,003	335,783
2012-2016	4,880,046	1,103,167
2017-2021	<u>3,320,000</u>	<u>220,600</u>
Total	<u>\$ 11,446,573</u>	<u>\$ 3,339,317</u>

A summary of accrued compensated absences at June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Early retirement incentive payable	\$ 18,140	\$ -	\$ 3,623	\$ 14,517
Sick leave payable	192,249	-	18,687	173,562
Vacation leave payable	<u>37,111</u>	<u>5,967</u>	<u>-</u>	<u>43,078</u>
Total	<u>\$ 247,500</u>	<u>\$ 5,967</u>	<u>\$ 22,310</u>	<u>\$ 231,157</u>

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations. Therefore, reasonable estimates of future payments required for accrued employee benefits cannot be determined as of June 30, 2006.

On March 1, 2005, the School issued general obligation bonds of \$7,780,000 (par amount) with an interest rate of 4% to 5% to partially advance refund term bonds with an interest rate of 5% to 5.375% and a par value of \$7,900,000. The term bonds mature May 1, 2019, and are callable on May 1, 2009. The general obligation bonds were issued at a premium and, after paying issuance costs of \$58,777, bond insurance of \$14,610, and underwriter's discount of \$38,900, the net proceeds were \$8,320,766. The net proceeds from the issuance of the general obligation bonds were to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on May 1, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the refunded portion of the term bonds were removed from the School's government-wide financial statements.

As a result of the advance refunding, the School reduced its total debt service requirements by \$734,620, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$534,134.

Note 6 - Pension

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 489019-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for October 1, 2005 through September 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$2,191,261, \$1,998,497, and \$1,880,440, respectively, and were equal to the required contribution for those years.

Post Employment Benefits – Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

Other Pension Plan – The School District contributes to a 401(a) Special Pay Plan through Bencor National Plan. The Plan became effective July 1, 2004 through union negotiations. The Plan is available to all the United Steelworkers Union Members eligible for health, vision, and dental insurance. Each Union Contract has an expenditure "cap" on what the School will contribute toward insurance. Plan members are not required to contribute to the plan and the School's contribution is to be determined each year. The contribution is determined each year based on the difference between the actual cost of insurance and the "capped" amount. This difference is then divided among the eligible participants. This amount will be contributed toward an employee's individual 401(a) retirement plan.

The School's contribution's for the years ended June 30, 2006 and 2005 were \$326,135 and 348,199 respectively. The contributions will continue to be an expenditure of the School until new Union Contracts are negotiated.

Note 7 - Interfund Receivable and Payables, and Transfers

The School District reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

		DUE TO OTHER FUNDS		
		General Fund	All Others	Totals
DUE FROM OTHER FUNDS	General Fund	\$ -	\$ 40,077	\$ 40,077
	All Others	<u>43,643</u>	<u>-</u>	<u>43,643</u>
	Total	<u>\$ 43,643</u>	<u>\$ 40,077</u>	<u>\$ 83,720</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers:

		TRANSFERS OUT		
		General Fund	Nonmajor	Totals
TRANSFERS IN	QZAB Debt Service	\$ 121,963	\$ -	\$ 121,963
	Nonmajor	<u>285,500</u>	<u>24,940</u>	<u>310,440</u>
	Total	<u>\$ 407,463</u>	<u>\$ 24,940</u>	<u>\$ 432,403</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 8 - Risk Management

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Accrued Employee Benefits

The district offered its teachers and administrative personnel early retirement incentives. Payments under these programs will be made through the year 2006. A liability for amounts payable in years subsequent to the year ended June 30, 2006 of \$14,517 was recorded.

Administrators who have accumulated in excess of 140 unused sick days will receive, upon retirement, a one-time payment for the number of unused sick days accumulated during their last eleven years of employment based on .28% of current base salary for each unused sick day earned during the last eleven years.

Teachers who have accumulated in excess of 150 unused sick days will receive, upon retirement, a one-time payment for 100 sick days based on .28% of current base salary.

Secretarial, transportation, custodial, cafeteria, and paraprofessional employees who have accumulated in excess of 100 unused sick days will receive upon retirement, a one-time payment for unused sick days accumulated during their last six years of employment. This benefit is payable at rates ranging from \$10 to \$50 based on hours worked per day.

Note 10 - Commitments and Contingencies

Grants

The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2006.

Note 10 - Commitments and Contingencies (Continued)**Letter of Credit**

On May 22, 2000, the School District entered into an Irrevocable Standby Letter of Credit. The letter of credit in the amount of \$50,000 is to be held by a local financial institution until construction of the Wetland Mitigation Project, file #00-17-0021-P is completed and approved by the Michigan Department of Environmental Quality, (MDEQ) at which time 50% shall be returned at the end of the five (5) year monitoring period when the wetland is determined to be functional by the MDEQ.

The School District is required to deposit, yearly, payments into an escrow agent for the future payment of the 2001 and 2002 School Improvement Bonds. The future payments are as follows:

	<u>2001 QZAB</u>	<u>2002 QZAB</u>
2007	\$ 83,000	\$ 38,963
2008	83,000	38,963
2009	83,000	38,963
2010	83,000	38,963
2011	83,000	38,963
2012	83,000	38,963
2013	83,000	38,963
2014	-	38,963
2015	-	38,963
2016	-	38,963
2017	<u>-</u>	<u>93,481</u>
Total	<u>\$ 581,000</u>	<u>\$ 483,111</u>

Note 11 - Due From Other Governmental Units

Amounts due from other governmental units consist of \$3,439,271 in revenues due from state sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2006 state aid, which was not received until after year end due to a change in the state aid payment schedule.

Note 12 - Leases

The District has executed a noncancelable operating lease for copier equipment as follows:

Interest Rate	4.079%
Cost	\$ 242,518
Term	4 years
Monthly Payment	\$ 5,096
	<u>Total</u>
	<u>Payments</u>
2007	<u>66,248</u>
	66,248
Amount representing interest	<u>(1,549)</u>
Minimum Lease Value	<u>\$ 64,699</u>

Note 13 - Fund Equity Designations/Reservations

Fund equity designations are as follows:

General Fund	\$ 32,479	Designated for School Store
Debt Service	853,156	Reserved for Bond Activity
Special Revenue	219,658	Designated for Fund Purpose

Note 14 - Receivables

Receivables as of year end for the School's individual major and nonmajor funds are as follows:

	<u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 3,260	\$ 16,413	\$ 19,673
Due From Others	<u>3,439,271</u>	<u>-</u>	<u>3,439,271</u>
Net Receivables	<u>\$ 3,442,531</u>	<u>\$ 16,413</u>	<u>\$ 3,458,944</u>

Note 15 - Subsequent Events

On August 18, 2006, the School District borrowed \$1,500,000 at 3.68 percent interest in a State Aid Anticipation Note. The Note, plus interest; is due August 20, 2007.

Note 16 - Prior Period Adjustment

	<u>QZAB Fund</u>	<u>Governmental Activities</u>
Fund balance, beginning of year, as previously reported	\$ -	\$ -
Net assets, beginning of year, as previously reported	-	7,833,662
Error in recording capital assets net of depreciation	-	127,517
Error in recording QZAB payments as expenditure instead of an assets	413,876	413,876
Error in accruing interest of QZAB payments	<u>-</u>	<u>(499,135)</u>
Fund balance – net assets, beginning of year, restated	<u>\$ 413,876</u>	<u>\$ 7,875,920</u>

Required Supplemental Information

Sault Ste. Marie Area Public Schools

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 4,272,000	\$ 4,290,601	\$ 4,233,555	\$ (57,046)
State sources	16,358,927	16,116,071	16,186,372	70,301
Federal sources	1,761,433	1,657,275	1,643,907	(13,368)
Interdistrict sources	<u>666,740</u>	<u>702,031</u>	<u>828,836</u>	<u>126,805</u>
Total revenues	<u>23,059,100</u>	<u>22,765,978</u>	<u>22,892,670</u>	<u>126,692</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	10,370,339	10,334,731	10,267,714	67,017
Added Needs	4,297,311	4,554,170	4,415,596	138,574
Instructional services:				
Pupil services and staff	2,485,082	2,417,175	2,361,990	55,185
Supporting services:				
School administration	2,573,441	2,664,313	2,635,350	28,963
Maintenance and transportation	3,568,335	3,620,136	3,528,335	91,801
Community services	153,524	28,396	31,037	(2,641)
Debt service	122,000	121,986	122,487	(501)
Other Uses –				
Operating transfers	285,500	285,500	285,500	-
Other	<u>40,000</u>	<u>468</u>	<u>9,158</u>	<u>(8,690)</u>
Total Expenditures	<u>23,895,532</u>	<u>24,026,875</u>	<u>23,657,167</u>	<u>369,708</u>
Excess (Deficiency) of				
Revenues over Expenditures				
And Other Uses	<u>\$ (836,432)</u>	<u>\$ (1,260,897)</u>	<u>(764,497)</u>	<u>\$ 496,400</u>
Budgetary fund balance – July 1, 2005			<u>2,813,469</u>	
Budgetary fund balance – June 30, 2006			<u>\$ 2,048,972</u>	

Other Supplemental Information

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Revenues
Year Ended June 30, 2006**

	<u>2006 Actual</u>
REVENUES:	
Local Sources	
Current property taxes	\$ 3,401,061
Delinquent fees and other taxes	42,029
Gaming compact	80,316
Earnings on investments	78,730
Charges for services	385,885
Other local revenues	<u>245,534</u>
Total Local Sources	<u>4,233,555</u>
State Sources	
Foundation grant	14,579,881
Durant settlement	68,770
At risk categorical	465,616
Special education	884,110
Vocational education	172,995
Other	<u>15,000</u>
Total State Sources	<u>16,186,372</u>
Federal Sources	
Title I	732,620
Impact Aid	429,887
Title IV	239,869
Title II	218,482
Other	<u>23,049</u>
Total Federal Sources	<u>1,643,907</u>
Interdistrict Sources	
Special education	403,700
Carl Perkins	138,622
Preschool incentive	28,389
Freedom to Learn	63,585
Other	<u>194,540</u>
Total Interdistrict Sources	<u>828,836</u>
Total Revenues	<u><u>\$ 22,892,670</u></u>

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
EXPENDITURES:		
Instruction		
Basic Programs:		
Elementary:		
Salaries	\$ 2,574,975	
Benefits	1,233,285	
Purchased services	1,339	
Supplies	143,170	
Miscellaneous	<u>1,173</u>	
Total Elementary		3,953,942
 Middle School		
Salaries	1,832,120	
Benefits	872,319	
Purchased services	3,481	
Supplies	49,077	
Capital outlay	<u>4,229</u>	
Total Middle School		2,761,226
 High School		
Salaries	2,317,171	
Benefits	1,139,787	
Purchased services	9,834	
Supplies	57,319	
Capital outlay	8,809	
Miscellaneous	<u>19,626</u>	
Total High School		3,552,546
 Added Needs:		
Special Education		
Salaries	1,442,905	
Benefits	883,400	
Purchased services	5,979	
Supplies	8,571	
Miscellaneous	<u>140</u>	
Total Special Education		2,340,995

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
Instruction (Continued)		
Vocation Education		
Salaries	719,367	
Benefits	347,218	
Purchased services	44,772	
Supplies	107,647	
Capital outlay	2,788	
Miscellaneous	<u>1,152</u>	
Total Vocation Education		1,222,944
Compensatory Education		
Salaries	465,414	
Benefits	267,791	
Purchased services	30,694	
Supplies	<u>87,758</u>	
Total Compensatory Education		<u>851,657</u>
Total Instruction		<u>14,683,310</u>
Instructional Services		
Pupil Services:		
Attendance		
Salaries	84,150	
Benefits	<u>56,246</u>	
Total Attendance		140,396
Guidance		
Salaries	315,337	
Benefits	149,743	
Purchased Services	54	
Supplies	1,759	
Miscellaneous	<u>60</u>	
Total Guidance		466,953

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
Instructional Services (Continued)		
Pupil Services:		
Health Services		
Purchased services	106,247	
Supplies	2,879	
Miscellaneous	<u>76</u>	
Total Health Services		109,202
Speech Therapy		
Salaries	119,594	
Benefits	58,387	
Purchased services	58,491	
Supplies	<u>392</u>	
Total Speech Therapy		236,864
Social Worker		
Salaries	84,735	
Benefits	<u>57,464</u>	
Total Social Worker		142,199
Teacher Consultant		
Public Services	<u>90</u>	
Total Teacher Consultant		90
Native Student Advisor		
Salaries	146,053	
Benefits	50,485	
Purchased services	36,680	
Miscellaneous	<u>23,120</u>	
Total Native Advisor		256,338

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
Instructional Services (Continued)		
Pupil Services:		
Staff Development		
Salaries	80,431	
Benefits	26,112	
Purchased services	123,927	
Supplies	4,836	
Miscellaneous	<u>1,011</u>	
Total Staff Development		236,317
 Library		
Salaries	186,895	
Benefits	128,492	
Purchased services	4,959	
Supplies	<u>9,792</u>	
Total Librarian		330,138
 Supervision		
Salaries	274,223	
Benefits	128,078	
Purchased services	11,518	
Supplies	19,095	
Capital Outlay	6,454	
Miscellaneous	<u>4,125</u>	
Total Supervision		<u>443,493</u>
 Total Instructional Services		<u>2,361,990</u>
 Supporting Services		
School Administration:		
Board of Education		
Benefits	11,220	
Purchased services	24,702	
Miscellaneous	<u>14,060</u>	
Total Board of Education		49,982

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
Supporting Services (Continued)		
School Administration:		
Superintendent Administration		
Salaries	135,134	
Benefits	53,416	
Purchased services	26,385	
Supplies	440	
Capital Outlay	3,245	
Miscellaneous	<u>2,800</u>	
Total Superintendent		221,420
 Office of the Principal		
Salaries	828,277	
Benefits	433,890	
Purchased services	2,787	
Supplies	30,467	
Capital outlay	1,565	
Miscellaneous	<u>9,395</u>	
Total Principal		1,306,381
 Information Services		
Salaries	135,862	
Benefits	86,514	
Supplies	4,669	
Miscellaneous	<u>8,301</u>	
Total Information Services		235,346
 Operation and Maintenance of Plant		
Salaries	707,574	
Benefits	445,606	
Purchased services	294,767	
Supplies	758,504	
Capital outlay	95,009	
Miscellaneous	<u>102,417</u>	
Total Maintenance		2,403,877

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
Supporting Services (Continued)		
School Administration:		
Pupil Transportation		
Salaries	552,168	
Benefits	338,665	
Purchased services	29,398	
Supplies	123,346	
Capital Outlay	73,172	
Miscellaneous	<u>7,709</u>	
Total Transportation		1,124,458
Technology		
Salaries	195,051	
Benefits	92,518	
Purchased services	120,768	
Supplies	25,612	
Capital outlay	<u>123,206</u>	
Total Technology		557,155
Personnel		
Salaries	149,295	
Benefits	74,164	
Purchased services	19,935	
Supplies	5,138	
Capital Outlay	1,936	
Miscellaneous	<u>5,376</u>	
Total Personnel		255,844
Other School Administration		<u>9,222</u>
Total Supporting Services		<u>6,163,685</u>

Sault Ste. Marie Area Public Schools**Other Supplemental Information
General Fund
Schedule of Expenditures (Continued)
Year Ended June 30, 2006**

	<u>2006 Actual</u>	
Community Services		
Community Recreation		
Salaries	6,773	
Benefits	710	
Supplies	1,792	
Miscellaneous	<u>704</u>	
Total Community Recreation		<u>9,979</u>
Day Care		
Purchased Services	12,556	
Supplies	<u>597</u>	
Total Day Care		<u>13,153</u>
Other Community Services		<u>7,905</u>
Total Community Services		<u>31,037</u>
Debt Service		<u>122,487</u>
Transfers and Other Uses		
Other	9,158	
Operating transfers out	<u>285,500</u>	
Total transfers and other uses		<u>294,658</u>
Total General Fund expenditures And other uses		<u>\$ 23,657,167</u>

Sault Ste. Marie Area Public Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds		Debt Service Funds			Capital Project Fund	Total Nonmajor Governmental Funds
	Athletic	Food Service	1968 Bond Debt Service	1973 Bond Debt Service	1999 Bond Debt Service	1999 Building and Site	
ASSETS:							
Cash and cash equivalents	\$ -	\$ 221,445	\$ -	\$ -	\$ 317,361	\$ -	\$ 538,806
Accounts receivable	-	16,413	-	-	-	-	16,413
Due from other funds	31,295	8,782	-	-	-	-	40,077
TOTAL ASSETS	\$ 31,295	\$ 246,640	\$ -	\$ -	\$ 317,361	\$ -	\$ 595,296
LIABILITIES:							
Due to other funds	\$ -	\$ 43,599	\$ -	\$ -	\$ 44	\$ -	\$ 43,643
Accounts payable	-	259	-	-	-	-	259
Deferred revenue	-	14,419	-	-	-	-	14,419
TOTAL LIABILITIES	-	58,277	-	-	44	-	58,321
FUND EQUITY:							
Fund Balance:							
Designated	31,295	188,363	-	-	317,317	-	536,975
TOTAL LIABILITIES AND FUND EQUITY	\$ 31,295	\$ 246,640	\$ -	\$ -	\$ 317,361	\$ -	\$ 595,296

Sault Ste. Marie Area Public Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds		Debt Service Funds			Capital Project Fund	Total Nonmajor Governmental Funds
	Athletic	Food Service	1968 Bond Debt Service	1973 Bond Debt Service	1999 Bond Debt Service	1999 Building and Site	
REVENUES:							
Interest on deposits	\$ -	\$ 8,590	\$ -	\$ -	\$ 15,491	\$ -	\$ 24,081
Local Sources:							
Taxes	-	-	-	-	1,045,599	-	1,045,599
Other	149,982	484,250	-	-	-	-	634,232
State Sources	-	65,965	-	-	48,293	-	114,258
Federal Sources	-	446,198	-	-	-	-	446,198
TOTAL REVENUES	149,982	1,005,003	-	-	1,109,383	-	2,264,368
EXPENDITURES:							
Athletic Activities	424,550	-	-	-	-	-	424,550
Food Services	-	1,021,747	-	-	-	-	1,021,747
Debt Service:							
Principal	-	-	-	-	528,287	-	528,287
Interest and Fees	-	-	-	-	537,545	-	537,545
Capital Outlay	-	-	-	-	-	293	293
TOTAL EXPENDITURES	424,550	1,021,747	-	-	1,065,832	293	2,512,422
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(274,568)	(16,744)	-	-	43,551	(293)	(248,054)
OTHER FINANCING SOURCES:							
Other Expense	-	-	-	-	(522,621)	-	(522,621)
Operating Transfers In	285,500	-	-	-	24,940	-	310,440
Operating Transfers Out	-	-	(13,121)	(11,819)	-	-	(24,940)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	10,932	(16,744)	(13,121)	(11,819)	(454,130)	(293)	(485,175)
FUND BALANCES, JULY 1	20,363	205,107	13,121	11,819	771,447	293	1,022,150
FUND BALANCES, JUNE 30	\$ 31,295	\$ 188,363	\$ -	\$ -	\$ 317,317	\$ -	\$ 536,975

Sault Ste. Marie Area Public Schools**School Activity (Agency) Fund
Statement of Changes in Assets and Liabilities - Summary
Year Ended June 30, 2006**

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Balance June 30, 2006</u>
ASSETS:				
Cash and equivalents	<u>\$ 281,200</u>	<u>\$ 869,605</u>	<u>\$ 849,852</u>	<u>\$ 300,953</u>
LIABILITIES:				
Due to Clubs and Organizations:				
High School	149,681	495,062	476,540	168,203
Middle School	98,672	182,428	188,863	92,237
Bruce Township School	5,371	-	5,371	-
Lincoln School	7,931	75,696	70,909	12,718
Soo Township School	7,605	68,890	62,841	13,654
Washington School	8,831	39,767	38,887	9,711
Alternative High School	<u>3,109</u>	<u>7,762</u>	<u>6,441</u>	<u>4,430</u>
TOTAL LIABILITIES	<u>\$ 281,200</u>	<u>\$ 869,605</u>	<u>\$ 849,852</u>	<u>\$ 300,953</u>

Sault Ste. Marie Area Public Schools

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Subtractions	Balance June 30, 2006
ASSETS:				
Cash and equivalents	\$ 281,200	\$ 869,605	\$ 849,852	\$ 300,953
LIABILITIES:				
Due to Clubs and Organizations:				
HIGH SCHOOL				
Administration:				
Driver Education	(70)	38,134	37,914	150
Maintenance/Vandalism	-	25	15	10
Health	500	-	432	68
Advanced placement	331	5,127	4,657	801
Activity Fee Donations	5,250	2,888	8,138	-
Activity Fee	1,749	68,869	53,767	16,851
Technology Fines	35	5,755	33	5,757
TMI	2	675	598	79
Book deposits	16,410	6,940	6,607	16,743
Spain Trip	-	3,110	3,110	-
Sr. Class Booth Tree	-	1,050	717	333
Chipleys fund	77	532	347	262
Pop Machine	1,541	16,960	14,436	4,065
Parking Fees	1,206	1,210	-	2,416
General	1,645	6,412	6,760	1,297
Library fines	1,361	803	1,990	174
Special revolving	-	-	319	(319)
Staff Remembrance	68	-	-	68
Fines/obligations	3,359	2,369	2,989	2,739
Woods supplies	531	1,856	655	1,732
Total Administration	33,995	162,715	143,484	53,226
Athletics:				
Boys basketball	1,846	6,820	9,347	(681)
Cheerleaders	341	430	-	771
Cross country	757	10,991	7,988	3,760
Boys & Girls Basketball	-	5,472	3,557	1,915
Elementary basketball	3,784	1,387	300	4,871
MS Volleyball	-	1,177	740	437
Football	1,417	935	1,862	490
Gate receipts/passes	-	66,033	66,033	-
Boys track	60	506	484	82
Girls track	95	-	188	(93)
Girls basketball	2,222	1,727	5,302	(1,353)
Varsity softball	2,046	11,845	11,385	2,506
Baseball	131	275	389	17
Hockey team	10,441	19,311	19,547	10,205
Science supplies	626	-	-	626
Soccer team	691	5,464	2,651	3,504
Girls Soccer	4,847	8,312	6,466	6,693
Swim team	(75)	8,217	6,257	1,885
Golf - Boys	1,504	300	1,045	759
Golf - Girls	757	1,954	420	2,291
Volleyball team	1,560	4,906	5,027	1,439
Wrestling	3,365	3,064	1,315	5,114
Total Athletics	36,415	159,126	150,303	45,238

Sault Ste. Marie Area Public Schools

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Subtractions	Balance June 30, 2006
Classes and Clubs:				
Art Department	903	243	74	1,072
Art Club	3,750	2,271	899	5,122
Metal Sculpture	389	-	-	389
Band	1,080	1,191	1,467	804
Choir	(203)	1,301	908	190
Class of 2003	100	-	100	-
Class of 2007	1,195	7,803	5,579	3,419
Class of 2008	758	801	512	1,047
Class of 2005	1,481	100	1,581	-
Class of 2006	3,415	2,425	5,840	-
Class of 2009	-	1,226	421	805
Homecoming	-	1,412	1,412	-
Drama club	3,474	5,362	1,562	7,274
Student publications	2,238	1,314	2,344	1,208
Key club	821	4,877	4,837	861
Northern light	(36)	31,404	28,431	2,937
Poms Poms	920	4,537	3,900	1,557
Quiz bowl	2	-	-	2
SADD	520	-	351	169
Student council	2,398	1,876	2,033	2,241
PE Activities	-	302	243	59
WOW	367	6,503	5,923	947
Total Classes and Clubs	23,572	74,948	68,417	30,103
Vocational Youth Organizations:				
MOUS	1,326	1,178	1,524	980
IC3	-	60	-	60
BPA	48	18,896	17,717	1,227
Health Occupation Stud	2,680	5,056	7,088	648
Home economics	170	-	156	14
VICA-auto mechanics	964	4,321	4,376	909
VICA drafting	1,162	3,316	3,554	924
VICA graphic arts	10,522	5,004	13,283	2,243
VICA machine shop	145	648	662	131
VICA welding	696	1,529	1,240	985
VSO	5,970	6,580	6,725	5,825
Construction	5,266	-	1,550	3,716
Total Vocational Education	28,949	46,588	57,875	17,662
Other High School Accounts:				
Athletic development	15,588	29,186	27,460	17,314
First Robotics	11,149	22,499	29,001	4,647
Scat club	13	-	-	13
Total Other High School	26,750	51,685	56,461	21,974
Total High School	149,681	495,062	476,540	168,203

Sault Ste. Marie Area Public Schools

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Subtractions	Balance June 30, 2006
MIDDLE SCHOOL				
Art Supplies	45	-	-	45
General Athletics	927	9,569	1,501	8,995
Band	82	28	40	70
Book Deposits	13,204	4,527	5,188	12,543
Book Fines	64	-	-	64
Cafeteria	-	115,708	115,708	-
Cheerleading	178	-	-	178
Chipley	(3)	3	-	-
Coffee Fund	21	-	-	21
Computers	522	-	-	522
Concession	2,485	1,939	1,325	3,099
Drafting/Zielke	385	-	-	385
Elementary BKB	9,109	(9,109)	-	-
Elem Cheerleading	153	-	-	153
Faculty/Flower	148	350	148	350
Fun Funds	2,881	827	917	2,791
A57Garden SE Science	59	-	-	59
General Fund	216	787	802	201
History	-	165	165	-
Home Econ Lab	293	343	345	291
Iowa Testing Incentive	4,791	-	-	4,791
Japan - Student	-	12,100	12,100	-
Library	2,474	2,413	2,855	2,032
Math - K. Zielke	1,022	138	-	1,160
Metals - D Panik	15	-	-	15
Office - Principal	4,765	3,001	4,456	3,310
Performing Arts	883	2,073	1,320	1,636
Pop Machine - Lobby	20,535	3,225	2,044	21,716
Pride & Culture Grant	1,831	-	1,082	749
Quebec Trip	(631)	631	-	-
Science - Gorsuch	146	4	-	150
Science - Dougherty	402	2,314	2,416	300
6th Grade Activity	639	-	-	639
Social Committee	100	934	631	403
Social Studies	56	-	-	56
Student Council	20,511	18,323	21,690	17,144
Student Needs	2,818	27	2,845	-
Student Planner Book	2,251	781	-	3,032
Tobacco Grant	1,146	-	99	1,047
Track Team	560	-	-	560
Washington DC	599	348	848	99
Vending Machine	1,224	-	-	1,224
Woodshop-Prac Arts	430	333	-	763
Woods	427	5	-	432
WOW	-	1,011	990	21
Yearbook	909	9,630	9,348	1,191
Total Middle School	98,672	182,428	188,863	92,237
BRUCE TWP SCHOOL				
General Fund	5,371	-	5,371	-
Total Bruce Twp School	5,371	-	5,371	-

Sault Ste. Marie Area Public Schools

School Activity (Agency) Fund Statement of Changes in Assets and Liabilities - Detail Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Subtractions	Balance June 30, 2006
LINCOLN SCHOOL				
Book Fair	945	2,878	3,427	396
Book Fines	678	10	-	688
Book Orders	-	961	961	-
Dress Down	554	41	361	234
Fundraiser, Inc	2,075	3,766	3,661	2,180
General Fund	944	33,331	27,536	6,739
Kymes	61	-	-	61
Laminating	187	-	-	187
Lunch	94	30,070	30,095	69
Office	303	100	200	203
Others	9	-	9	-
Pop	1,198	473	849	822
Rogers/Bump	293	2,732	2,415	610
Rogers	30	-	30	-
Store	560	1,334	1,365	529
Total Lincoln School	7,931	75,696	70,909	12,718
SOO TOWNSHIP SCHOOL				
General Fund	4,739	20,360	15,436	9,663
Lunch	-	34,172	34,172	-
Library	427	9,062	8,329	1,160
Environmental Education	500	-	-	500
Teacher Room 15	137	-	137	-
Teacher Room 9	64	51	-	115
Teacher Room 17	965	508	761	712
Teacher Room 1 & 2	773	2,602	2,870	505
Teacher Room 10	-	565	565	-
Teacher Room 7	-	590	558	32
Teacher Room 5	-	25	-	25
Teacher Room 12	-	728	-	728
Teacher Room 13	-	179	13	166
Teacher Room 14	-	48	-	48
Total Soo Township School	7,605	68,890	62,841	13,654
WASHINGTON SCHOOL				
Box Top	164	-	-	164
Book Orders	-	58	58	-
Dress Down	68	-	-	68
General Fund	3,142	3,854	4,177	2,819
Library/Book Fair	805	6,848	6,699	954
Lunch	-	24,378	24,378	-
Pop	2,169	1,287	1,054	2,402
Popcorn	1,310	1,197	840	1,667
Store	1,096	1,934	1,443	1,587
Sunshine	63	211	238	36
PTO	14	-	-	14
Total Washington School	8,831	39,767	38,887	9,711
ALTERNATIVE HIGH SCHOOL				
Lunch	-	5,309	5,309	-
Store	3,109	2,453	1,132	4,430
Total Alternative High School	3,109	7,762	6,441	4,430
TOTAL LIABILITIES	\$ 281,200	\$ 869,605	\$ 849,852	\$ 300,953

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
460 W. Spruce Street
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Sault Ste. Marie Area Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued our report thereon, dated August 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Sault Ste. Marie Area Public Schools in a separate letter dated August 21, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 06-1.

We also noted certain other matters that we reported to management of Sault Ste. Marie Area Public Schools in a separate letter dated August 21, 2006.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2006



ANDERSON, TACKMAN & COMPANY, PLC
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MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
460 W. Spruce Street
Sault Ste. Marie, MI 49783

Compliance

We have audited the compliance of Sault Ste. Marie Area Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

As described in item 06-2 in the accompanying schedule of findings and questioned costs, the Sault Ste. Marie Area Public Schools did not comply with requirements regarding allowable costs that is applicable to its School Lunch Program. Compliance with such requirements is necessary, in our opinion, for the Sault Ste. Marie Area Public Schools to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Sault Ste. Marie Area Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Sault Ste. Marie Area Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Sault Ste. Marie Area Public Schools internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Sault Ste. Marie Area Public Schools ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2006



Sault Ste. Marie Area Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Grantor/Pass-through/Program Title	Federal CFDA Number	Project Number	Approved Award/Grant Amount	Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2005	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2006
U.S. DEPARTMENT OF AGRICULTURE									
<i>Passed through State of Michigan Department of Education (MDE):</i>									
Entitlement Commodities	10.550	-	\$ -	\$ 41,502	\$ (10,998)	\$ 41,273	\$ 43,820	\$ 43,820	(8,451)
Bonus Commodities	10.550	-	-	6,868	(7)	421	416	416	(12)
Subtotal Commodities			-	48,370	(11,005)	41,694	44,236	44,236	(8,463)
National School Lunch - Breakfast	10.553	1970	-	78,601	-	86,606	86,606	86,606	-
National School Lunch Program - All lunches	10.555	1950	-	55,757	-	56,510	56,510	56,510	-
National School Lunch Program - Free and Reduced	10.555	1960	-	261,289	-	258,846	258,846	258,846	-
Subtotal - Child Nutrition Cluster			-	395,647	-	401,962	401,962	401,962	-
Total - U.S. Department of Agriculture			-	444,017	(11,005)	443,656	446,198	446,198	(8,463)
U.S. DEPARTMENT OF LABOR									
<i>Passed through Eastern Upper Peninsula Employment Training Consortium (EUPETC):</i>									
WIA - Adult	17.258	-	-	6,300	-	7,800	7,800	7,800	-
WIA - Dislocated Worker	17.260	-	-	2,100	-	975	975	975	-
WIA - Displaced Homemaker	17.258; 17.259; 17.260	-	-	-	-	1,950	1,950	1,950	-
Total - U.S. Department of Labor			-	8,400	-	10,725	10,725	10,725	-
U.S. DEPARTMENT OF EDUCATION									
<i>Direct Award:</i>									
Indian Education - LEA 05-06Regular	84.060A	B060A050124	239,869	-	-	176,340	239,869	239,869	63,529
Impact Aid	84.041	S041B-2006-5977	429,887	-	-	429,887	429,887	429,887	-
Total Direct Awards			669,756	-	-	606,227	669,756	669,756	63,529
<i>Passed through State of Michigan Department of Education (MDE):</i>									
Title I School Improvement	84.010	051550 0506	60,000	-	-	60,000	60,000	60,000	-
ESEA Title I, 2% School Improvement	84.010	041550 0405	5,000	-	-	5,000	5,000	5,000	-
Title I, Part A - 2006 Regular	84.010	061530 0506	573,545	-	-	440,841	551,439	551,439	110,598
Title I, Part A - 2005 Regular	84.010	051530 0405	537,598	537,598	24,096	24,096	-	-	-
Title I, Part A - 2005 Regular Carryover	84.010	051530 0405	116,181	-	-	114,079	116,181	116,181	2,102
Subtotal - Title I			1,292,324	537,598	24,096	644,016	732,620	732,620	112,700
IDEA Part B, Service Provider Self-Review	84.027A	060440 SPSR	4,200	-	-	-	3,100	3,100	3,100
Title V - LEA Allocation	84.298	060250 0506	9,224	-	-	-	9,224	9,224	9,224
Title II, Part D - Enhancing Education Through Technology	84.318	064290 0506	10,700	-	-	10,200	10,700	10,700	500
Improving Teacher Quality	84.367	060520 0506	207,782	-	-	167,024	207,782	207,782	40,758
Subtotal - MDE			1,524,230	537,598	24,096	821,240	963,426	963,426	166,282

Sault Ste. Marie Area Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Federal Grantor/Pass-through/Program Title	Federal CFDA Number	Project Number	Approved Award/Grant Amount	Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2005	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2006
U.S. DEPARTMENT OF EDUCATION (Continued)									
<i>Passed through Eastern Upper Peninsula Intermediate School District (EUPISD):</i>									
Handicapped Persons Title VI - B: Flowthrough	84.027	060450-0506	403,700	419,628	174,530	432,665	403,700	403,700	145,565
Carl Perkins VEA: Regional Allocation	84.048	063540-6012-3	110,273	110,083	43,486	118,761	110,273	110,273	34,998
Special Education - Preschool Incentive	84.173	060460-0506	28,389	26,926	-	18,230	28,389	28,389	10,159
Carl Perkins Tech. Prep:	84.243A	063540-6014-3	28,349	24,550	-	7,865	28,349	28,349	20,484
Freedom to Learn	84.318	064280-5a	63,603	657,000	-	63,585	63,585	63,585	-
Total - EUPISD			634,314	1,238,187	218,016	641,106	634,296	634,296	211,206
Total - U.S. Department of Education			2,828,300	1,775,785	242,112	2,068,573	2,267,478	2,267,478	441,017
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,828,300</u>	<u>\$ 2,228,202</u>	<u>\$ 231,107</u>	<u>\$ 2,522,954</u>	<u>\$ 2,724,401</u>	<u>\$ 2,724,401</u>	<u>\$ 432,554</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sault Ste. Marie Area Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Oversight Agency

The U.S. Department of Education is the oversight agency of the School District, as this federal agency provided the largest amount of indirect and direct federal funding.

Note C - Food Distribution

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. Entitlement donated commodities used during the year amounted to \$44,855, with ending inventory amounting to \$8,451. Bonus donated commodities used during the year amounted to \$416, with ending inventory amounting to \$12.

Note D - Reconciliation of Current Receipts to Form R7120 Payments

Payments per Form R7120	\$ 1,242,942
State Fund Programs:	
School Breakfast	(19,740)
Pass thru Grants:	
Other	10,725
EUPISD	641,106
Direct Awards:	
US Department of Education	606,227
US Department of Agriculture	<u>41,694</u>
	<u>\$ 2,522,954</u>

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of Major Programs:

CFDA Numbers

84.010
84.027
84.173
10.553
10.555

Name of Federal Program

Title I – Part A
Title VIB – Handicapped Persons
Special Education – Preschool Incentive
National School Lunch – Breakfast
National School Lunch - Program

Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Noncompliance with State Statutes**Expenditures in Excess of Appropriations***Finding 06-1*

Statement of Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2006, the School incurred expenditures in excess of amounts appropriated as follows.

<u>Fund/Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
• Food Service Fund: Food Service	\$ 990,227	\$ 1,021,747	\$ (31,520)

Effect: The School has not complied with various State Statutes.

Cause of Condition: Unknown

Recommendation: The Board should monitor and amend the budget as deemed necessary.

- Contact Person(s) Responsible for Correction:
Lois Kenney, CPA, Lead Accountant
- Corrective Action Planned:
The budget will be more closely monitored and budget amendments will be made accordingly.
- Anticipated Completion Date:
The corrective procedures are in place.

Section III – Federal Award Findings and Questioned Costs

Reportable Conditions – Noncompliance with Federal Regulation**Payroll Certification***Finding 06-2*

Program: Title I – Part A; CFDA No. 84.010; U.S. Department of Education; Pass-through program from Michigan Department of Education. National School Lunch; CFDA No. 10.553 and 10.555; Pass-through from Michigan Department of Education.

Criteria: OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on federal programs be documented for co-funded and 100% funded staff.

Condition: The School District does not maintain semi-annual payroll certifications for the National School Lunch Programs. The School District does not maintain Personal Activity Reports (PARs) for Title I co-funded staff.

Section III – Federal Award Findings and Questioned Costs (Continued)

Reportable Conditions – Noncompliance with Federal Regulation

Payroll Certification

Finding 06-2

Effect: The School District could be incorrectly charging employee salaries to Federal Programs.

Cause: Unknown.

Recommendation: The School District should prepare wage certifications at least semi-annually for all National School Lunch Programs. The certifications must be signed by the employee and supervisor for employees who work solely for a single cost objective. Also, the School District should maintain Personal Activity Reports (PARs) for all co-funded staff.

- Contact Person(s) Responsible for Correction:
Lois Kenney, CPA, Lead Accountant
- Corrective Action Planned:
The School will complete the required certification beginning in the 2006-07 school year.
- Anticipated Completion Date:
The corrective procedures are in place.

Section II – Financial Statement Findings**Reportable Conditions – Noncompliance with State Statutes****Expenditures in Excess of Appropriations and Special Revenue Fund not Budgeted** *Finding 05-1*

Statement of Condition/Criteria: Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2005 the School incurred expenditures in excess of amounts appropriated as follows:

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Instruction	\$ 14,520,815	\$ 14,573,978	\$ (53,163)

Effect: The School has not complied with various State Statutes.

Cause of Condition: Unknown

Recommendation: The Board should monitor and amend the budget as deemed necessary.

Section III – Federal Award Findings and Questioned Costs**Reportable Conditions – Noncompliance with Federal Regulations****Department of Education** *Finding 05-2*

Program: Title IVB-Handicapped Persons; CFDA No. 84.027; Pass-through program from Easter Upper Peninsula Intermediate School District.

Criteria: OMB Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on federal programs be documented for co-funded and 100% funded staff.

Condition: The School District does not maintain the required documentation to be in compliance with OMB Circular A-87.

Effect: The School District could be incorrectly charging employee salaries to Federal Program.

Cause: Unknown.

Recommendation: The School District should prepare wage certifications at least semi-annually. The Certifications must be signed by the employee and supervisor for employees who work solely for one program.

Management’s Response – Corrective Action Plan: The School will complete the required certifications beginning in the 2005-2006 fiscal year.

**Unaudited
Additional Information**

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
460 W. Spruce Street
Sault Ste. Marie, MI 49783

Our report on our audit of the basic financial statements of Sault Ste. Marie Area Public Schools, Michigan, as of and for the year ended June 30, 2006, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2006

Unaudited - Sault Ste. Marie Area Public Schools

Additional Information
June 30, 2006

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2006, the District has the following debt issues that apply to SEC Rule 15c2-12.

\$12,175,000 Sault Ste. Marie Area Public Schools, County of Chippewa, State of Michigan, 1999 School Building and Site Bonds.

\$7,780,000 Sault Ste. Marie Area Public Schools, County of Chippewa, State of Michigan, 2005 Refunding Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

A. Property Valuations - Historical Valuation:

Year	SEV	Change	Total Taxable Value	Change
2005	\$ 528,756,810	5.62%	\$ 430,956,771	5.33%
2004	500,614,856	5.94	409,149,567	4.82
2003	472,543,450	5.17	390,320,432	3.69
2002	449,316,814	2.93	376,444,831	3.52
2001	436,527,407	5.42	363,649,438	4.46
2000	414,086,106	5.67	348,118,469	3.27

Source: School District and Chippewa County Equalization Department

B. Major Taxpayers:

Taxpayer	Product/Service	2006 Taxable Value	IFT Value	2006 IFT & Taxable Value
Edison Sault Electric Co.	Utility	\$ 16,901,000	\$ -	\$ 16,901,000
DRR Michigan II LLC	Shopping Mall	7,633,487	-	7,633,487
Pointe West I LP	Apartment Complex	6,622,956	-	6,622,956
Sault Ste. Marie Tribe	Various	4,078,421	-	4,078,421
Cloverland Electric	Utility	3,139,825	-	3,139,825
Key Plastics LLC	Manufacturer	1,174,800	1,656,300	2,831,100
Precision Edge Surg. Prod.	Manufacturer	2,603,900	-	2,603,900
Michcon Consolidated Gas	Utility	1,993,900	-	1,993,900
American Transmission	Utility	1,917,800	-	1,917,800
Clydes Restaurant	Restaurants	1,775,000	-	1,775,000
TOTAL		\$ 47,841,089	\$ 1,656,300	\$ 49,497,389

2005 Taxable Value \$ 430,956,771

Top 10 Taxpayers as a % of Total Taxable Value 11.49%

Source: Chippewa County Equalization Dept.

NOTE 2 - TABLES: (Continued)

C. School District Tax Rates:

<u>Year</u>	<u>Voted Operating*</u>	<u>Debt</u>	<u>Total</u>
2005-06	17.9604	2.4600	20.4204
2004-05	17.9604	2.5000	20.4604
2003-04	17.9604	2.6200	20.5804
2002-03	18.0000	2.7500	20.7500
2001-02	18.0000	2.7500	20.7500
2000-01	18.0000	2.7500	20.7500

* Levied on non-homestead property only
Adjusted for Headlee Millage Reduction
Source: Chippewa County Equalization Department and School District

D. State Aid Payments:

<u>Fiscal Year Ended 6/30</u>	<u>State Aid Received</u>	<u>Amount Received per Pupil</u>	<u>Foundation Allowance per Pupil</u>
2006	\$ 16,301,566	\$ 5,985	\$ 6,875
2005	16,307,662	5,770	6,700
2004	17,546,563	6,015	6,700
2003	17,830,335	5,853	6,700
2002	18,518,871	5,969	6,300
2001	17,348,904	5,548	6,000
2000	16,014,992	5,062	5,700

Source: School District and Michigan Department of Education

E. Tax Levies and Collections:

<u>Year</u>	<u>Operating Tax Levy</u>	<u>Collections by Units to March 1st</u>		<u>Collections to June 30th</u>	
		<u>Dollar Amt.</u>	<u>Percentage</u>	<u>Dollar Amt.</u>	<u>Percentage</u>
2005	\$ 3,472,573	\$ 2,331,659	67.14%	\$ 3,398,097	97.86%
2004	3,260,349	2,919,374	89.54	3,234,219	99.20
2003	3,144,000	2,775,649	88.30	3,097,661	98.50
2002	3,091,369	2,698,235	87.28	3,015,251	97.54
2001	3,030,181	2,582,427	85.22	2,945,471	97.20
2000	2,947,578	2,496,992	84.71	2,882,810	97.80
1999	2,979,584	2,465,974	82.76	2,954,252	99.15

Source: School District

NOTE 2 - TABLES: (Continued)

F. Labor Force: (2003-06)

<u>Contract Grouping</u>	<u>Employees</u>				<u>3 Year % Change</u>	<u>Union Affiliation</u>	<u>Contract Exp. Date</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>			
Administrators	16	15	14	14	-13%	Non-Affiliated	6/30/2008
Support Group	16	15	13	13	-19%	Non-Affiliated	6/30/2008
Teachers	195	191	178	174	-11%	SEA/MEA	8/31/2007
Secretaries	22	21	19	18	-18%	USWA	6/30/2008
Paraprofessionals	49	41	43	43	-12%	USWA	6/30/2008
Maintenance/Custodial	25	22.5	23	21	-16%	USWA	6/30/2008
Transportation	16	16	16	16	0%	USWA	6/30/2008
Food Service	<u>29</u>	<u>26</u>	<u>24</u>	<u>24</u>	<u>-17%</u>	USWA	6/30/2008
TOTALS	368	347.5	330	323	-12%		

SEA – Sault Education Association

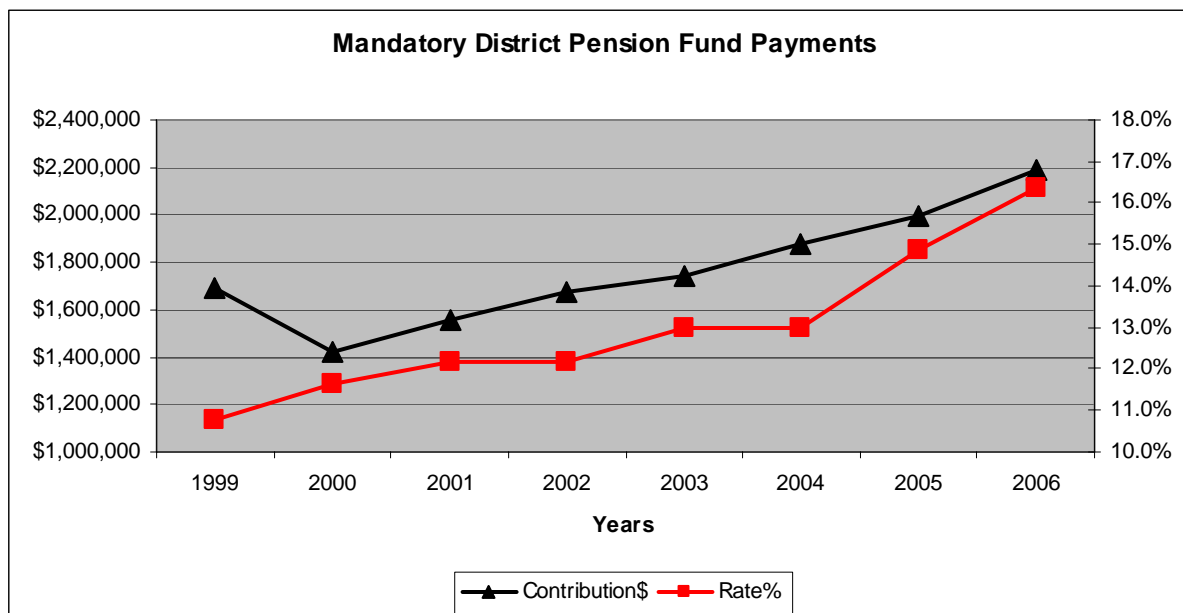
MEA – Michigan Education Association

USWA – United Steel Workers of America

Source: School District

G. Pension Fund: (MPERS)

<u>Fiscal Year</u>			<u>Fiscal Year</u>		
<u>Ended</u>	<u>Rate%</u>	<u>Contribution \$</u>	<u>Ended</u>	<u>Rate%</u>	<u>Contribution \$</u>
1999	10.77%	1,690,000	2003	12.99%	1,739,441
2000	11.66%	1,425,857	2004	12.99%	1,880,440
2001	12.16%	1,556,173	2005	14.87%	1,998,497
2002	12.17%	1,672,558	2006	16.34%	2,191,260



Source: Audited Financial Statements

NOTE 2 - TABLES: (Continued)

H. Debt Statement - Direct Debt:

<u>Bonds Dated</u>	<u>Description</u>	<u>Amount Outstanding 06/30/06</u>
8/1/99	Building and Site, UTQ	\$ 1,655,000
6/1/01	Building and Site, QZAB, LT	517,114
6/1/02	Building and Site, QZAB, LT	479,217
3/1/05	Refunding Bond, UTQ	<u>7,780,000</u>
		<u>\$ 10,431,331</u>

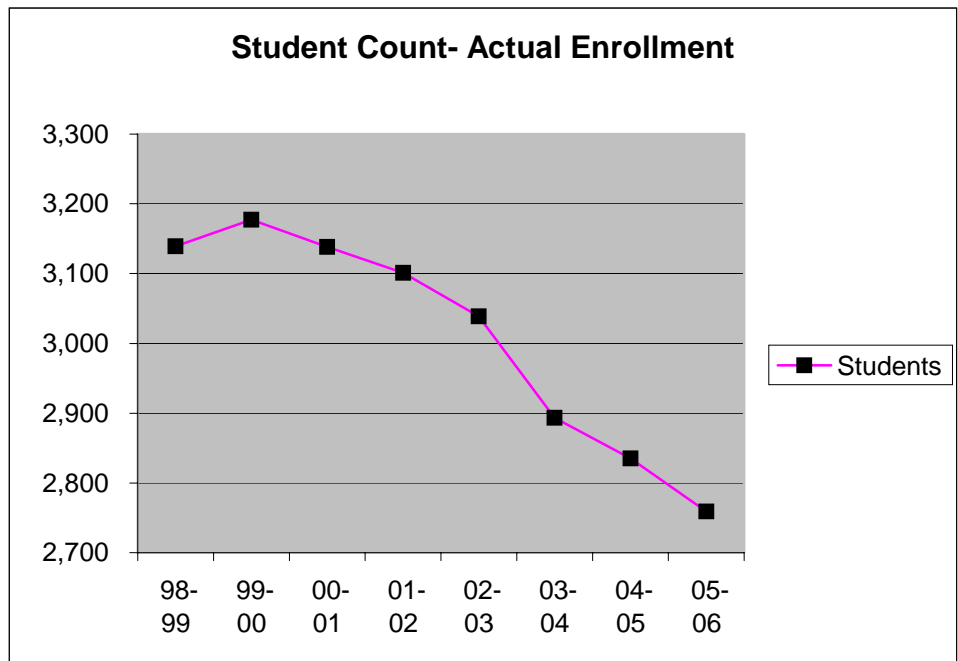
UTQ – Unlimited Tax Qualified
QZAB – Qualified Zone Academy Bonds
LT – Limited Tax

Source: Municipal Advisory Council of Michigan and School District

I. School Enrollment History:

<u>School Year</u>	<u>Enrollment</u>
2005/06	2,699
2004/05	2,814
2003/04	2,893
2002/03	3,039
2001/02	3,108
2000/01	3,138
1999/00	3,177
1998/99	3,139

Source: School District



J. 2005-2006 General Fund Summary:

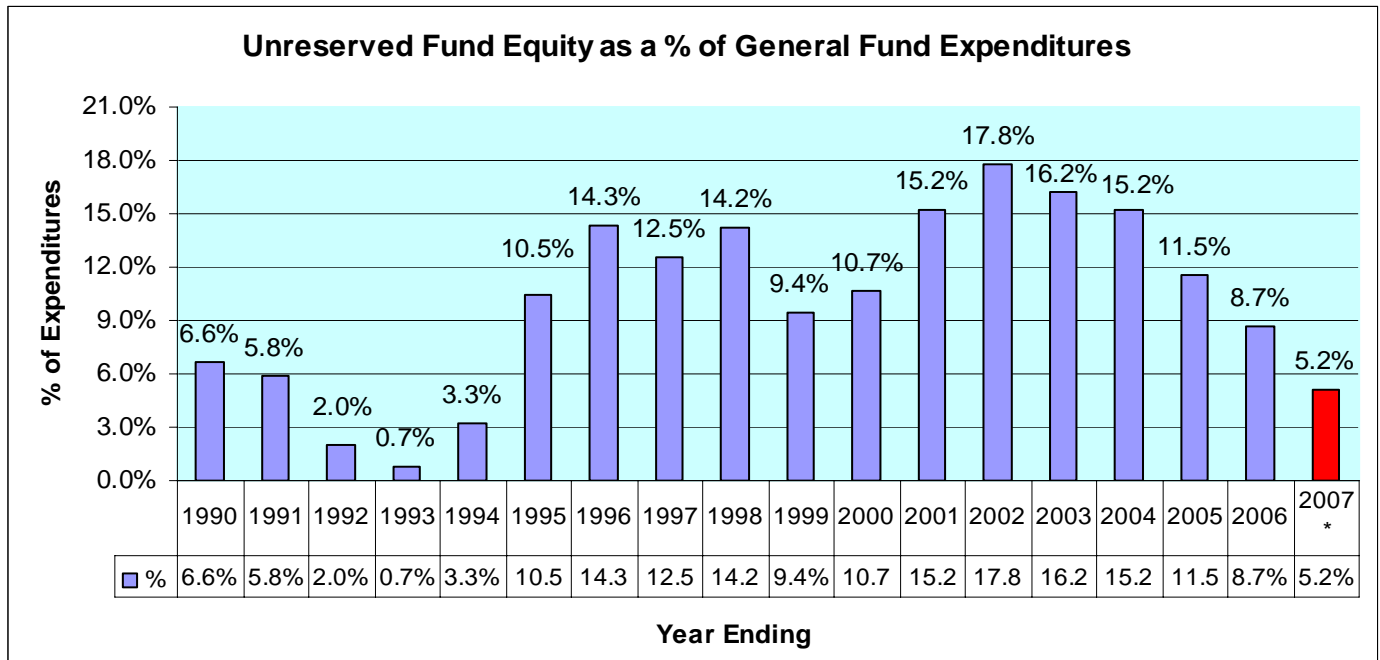
2005/06 Revenues	\$ 22,892,670
2005/06 Expenditures	<u>(23,657,167)</u>
Excess Revenues Over Expenses	\$ (764,497)
July 1, 2005 Fund Balance	<u>2,813,469</u>
June 30, 2006 Fund Balance	<u>\$ 2,048,972</u>

NOTE 2 - TABLES: (Continued)

K. Initial 2006-2007 General Fund Budget Summary:

2006/07 Revenues	\$ 22,698,092
2006/07 Expenditures	<u>(23,592,149)</u>
Excess Revenues Over Expenses	\$ (894,057)
July 1, 2006 Fund Balance	<u>2,048,972</u>
Estimated June 30, 2007 Fund Balance	<u>\$ 1,154,915</u>

L. Unreserved Fund Equity



* projected



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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Superintendent and Board of Education
Sault Ste. Marie Area Public Schools
876 Marquette Avenue
Sault Ste. Marie, MI 49783

We have audited the basic financial statements of Sault Ste. Marie Area Public Schools for the year ended June 30, 2006, and have issued our reports thereon dated August 21, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Sault Ste. Marie Area Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Sault Ste. Marie Area Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Sault Ste. Marie Area Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major Federal programs for the purpose of expressing an opinion on the Sault Ste. Marie Area Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Sault Area Public School's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by Sault Ste. Marie Area Public School are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by Sault Ste. Marie Area Public School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Sault Ste. Marie Area Public School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Sault Ste. Marie Area Public School, either individually or in the aggregate, indicate matters that could have a significant effect on the Sault Ste. Marie Area Public School's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Sault Ste. Marie Area Public Schools or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sault Ste. Marie Area Public School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements and other informational items we believe should be brought to your attention.

Cash (Repeat 2004)

We noted during our review of the Board of Education Minutes, the closing of one bank account was not authorized. It is recommended that all bank accounts opened or closed be authorized by the Board of Education.

Infrastructure Reporting (Repeat 2004)

The School District implemented provisions of Governmental Accounting Standards Board Statement 34 – Basic Financial Statements and Management's Discussion and Analysis. As part of the requirements, the School is required to report infrastructure assets such as right-of-ways, roads, street lighting, timber and mineral rights etc. The School District needs to inventory these types of assets and begin a process of depreciation as well as establish a capitalization policy to comply with the standard.

Check Sequence (Prior Year)

During our review of proper cut-off procedures it was noted the check numbers 33847 through 34089 were used twice. The School personnel noticed this duplication after the year ended June 30, 2005. However, it is still recommended care be taken when rolling information forward for the next fiscal school year.

Status: Corrected

Title I Budget (Prior Year)

During our review of the Title I budget allocation, it was noted that the final budget did not match the grant allocation budget prepared by the Grant Coordinator of the School. It was determined the amount variances were not material to the grant or the financial statements, however, it is recommended that once the allocation budget is determined, it not be amended unless there is a change in Title I grant funds or other reason allowed by the grant agreement.

Status: Uncorrected

Payroll (Prior Year)

It was noted during our review of payroll that one employee's FICA is charged to the incorrect account. We recommend account posting be reviewed to ensure FICA and related accounts are coded to the correct account.

Status: Corrected

Receipts (Prior Year)

During our review of the receipts system controls, we were unable to trace receipts of the daycare to one of the bank deposit slips. There was an immaterial difference; however, it is recommended that the receipt number(s) included on each deposit slip be written next to the amount on the deposit slip. This will allow for tracing and better control.

Status: Corrected

Contracts (Prior Year)

The School's Purchasing policy states bids are to be obtained for non-emergency items or services in excess of \$5,000, opened by the Superintendent in the presence of at least one (1) witness, and shall be approved by the Board. Of the contracts we reviewed, it was noted that one was not approved by the Board. We recommend the Board approve all contracts in accordance with the policy or amend the policy to meet the practice of the School.

Status: All policies we examined were properly approved.

Payroll Certifications (Prior Year)

OMB Circular A-87 attachment B11(h) requires support for all salaries and wages charged to federal grants be documented for co-funded and 100% funded staff. Employees who work 100% on a single federal grant activity are required to complete wage certifications at least semi-annually and should be signed by the employee and supervisor. Those employees working on multiple activities must document the amount of time spent on each federal activity and signed by the employee. This documentation must be completed at least monthly and must coincide with a payroll. The School did not obtain the proper documentation for the Special Education Flow-through federal grant; see 05-2 of the Schedule of Prior Audit Findings and Questioned Costs. It is recommended the School obtain the appropriate wage certification for each federal grant in which salaries and wages are charged to the grant.

Status: The certification for Special Education were completed; however, Food Service payroll certifications were not completed – see 06-2 of the Schedule of Findings and Questioned Costs.

Production Records

During our testing of the Food Service Program it was noted that productions records are not properly completed. We recommend all columns be completed on a daily basis.

Income Verification

During our testing of the School Lunch Program we noted one family that did not respond to the income verification process was not properly changed from reduced meal price to full price meals. Although the amount appeared to be immaterial, it is recommended all changes be made within the required time frame in order to be in compliance with Federal regulations.

Invoice Payment Approval

Currently, the School Board approves invoices after they have been paid. The School Board should approve all invoices prior to payment and establish a policy for early payment in order to receive credit or avoid late fees.

Personal Property Taxes

Currently, the School is not recording the amount of outstanding delinquent personal property taxes that are due to the School from other taxing units, in the general ledger. It is recommended the School record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The School should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Status: The School District is currently working with other governmental units to rectify this issue.

Capital Outlay

Items below the School District's Capitalization Policy of \$5,000 are recorded as capital outlay. Only items over \$5,000 should be coded as capital outlay in the general ledger.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

This information is intended solely for the use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2006